



Sherritt Gordon Mines Limited Annual Report 1977

AR22

1927-1977: Half a century of growth through the
development of Canadian resources and technology.



1977 at a Glance

(figures in thousands except per share figures and employees)

	1977	1976
Net earnings for the year	\$ 4,166	\$ 4,131
Net earnings per share	\$.33	\$.32
Dividends per share	\$.15	\$.35
Working capital	\$ 70,200	\$ 38,140
Capital expenditures	\$ 14,152	\$ 6,180
Gross income:		
Metal sales	\$ 143,886	\$ 147,884
Fertilizer sales	34,718	31,544
Technology licensing and other income	3,376	3,634
Total gross income	\$ 181,980	\$ 183,062
Copper sales (lbs.)	75,723	76,190
Zinc sales (lbs.)	77,254	98,749
Nickel sales (lbs.)	18,165	22,454
Fabricated metal product sales (lbs.)	5,332	2,881
Fertilizer sales (tons)	385	325
Employees	2,111	2,113

Cover

In recognition of Sherritt's 50th anniversary in 1977, the cover illustration for this report shows Carl Sherritt, the prospector after whom the Company is named. Carl staked the copper-zinc deposit in northern Manitoba which was developed into the Company's first mine at

Sherridon. The dual image of Carl symbolizes the Company's growth in the past 50 years and its commitment to further growth and development in the future.

To mark the 50th anniversary, the Company issued a commemorative medal. The design of the obverse side is shown on the right.



Annual Meeting

2:30 p.m., Thursday, April 27, 1978
Commerce Hall, Commerce Court,
Toronto, Ontario

Consolidated Statement of Earnings

For the Six Months Ended June 30, 1977
with comparative figures for 1976
(thousands of dollars)

		1977		1976	
		Second Quarter	Six Months	Second Quarter	Six Months
Gross Income					
	Metal sales	\$ 37,045	\$ 80,155	\$ 41,724	\$ 84,207
	Fertilizer sales	15,468	23,497	13,792	20,434
	Process licensing and other income	364	1,206	1,037	1,661
		52,877	104,858	56,553	106,302
Costs and Expenses					
	Operating costs	41,274	83,483	43,020	85,468
	Research	389	851	794	1,298
	Exploration	324	556	165	416
	Selling and administrative	1,253	2,315	1,065	1,922
	Interest	1,071	2,222	1,055	2,181
	Depreciation and amortization	3,106	5,732	2,653	5,036
		47,417	95,159	48,752	96,321
Earnings Before Taxes		5,460	9,699	7,801	9,981
	Income taxes — current	3,339	4,837	3,576	3,996
	— deferred	(675)	(625)	(400)	125
	Mining royalty taxes	—	—	—	—
		2,664	4,212	3,176	4,121
	Net earnings before minority interest	2,796	5,487	4,625	5,860
	Minority interest in net earnings of subsidiaries	3	7	4	8
Net Earnings		\$ 2,793	\$ 5,480	\$ 4,621	\$ 5,852
Earnings Per Share		\$.22	\$.43	\$.36	\$.46
Dividends Per Share		\$ —	\$ —	\$.10	\$.20

This statement is subject to year-end audit.

Consolidated Statement of Changes in Financial Position

For the Six Months Ended June 30, 1977
with comparative figures for 1976
(thousands of dollars)

		1977		1976	
		Second Quarter	Six Months	Second Quarter	Six Months
Funds were obtained from	Operations for the period				
	Net earnings	\$ 2,793	\$ 5,480	\$ 4,621	\$ 5,852
	Amounts deducted in arriving at net earnings which did not involve an outlay of funds				
	Depreciation and amortization	2,993	5,665	2,905	5,659
	Deferred income taxes	(675)	(625)	(400)	125
	Increase (decrease) in long-term debt	4,094	1,286	(675)	(3,483)
		9,205	11,806	6,451	8,153
Funds were used for	Expenditures on capital and deferred assets				
	Mining	2,245	3,825	1,002	2,065
	Refining and fabricating	307	489	893	1,020
	Fertilizer	77	258	87	127
	Research and patents	14	52	62	134
		2,643	4,624	2,044	3,346
	Dividends	—	—	1,279	2,547
	Investments	4	4	29	(1)
		2,647	4,628	3,352	5,892
	Increase in working capital	6,558	7,178	3,099	2,261
	Working capital at beginning of the period	38,760	38,140	37,634	38,472
	Working capital at end of the period	\$ 45,318	\$ 45,318	\$ 40,733	\$ 40,733

This statement is subject to year-end audit.

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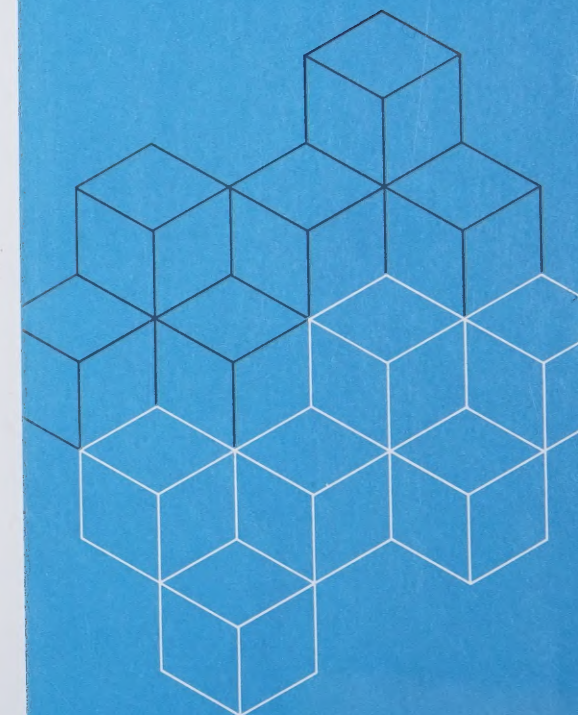


Sherritt Gordon
Mines
Limited

Second Quarter
Report to
Shareholders
1977



Sherritt Gordon Mines Limited
P.O. Box 28, Commerce Court West
Toronto, Canada M5L 1B1



Report for the Second Quarter, 1977

Earnings for the second quarter of 1977 amounted to 22¢ per share, almost 40% below the comparable quarter of 1976 but just above the 21¢ per share earned in the first quarter of 1977. Earnings for the first half of 1977 were 43¢ per share, about 6% below the 46¢ per share earned in the first half of 1976.

Significant profit improvements were achieved by the refining and fabricating divisions during the first half of 1977. Unfortunately this improvement was more than offset in the mining division where increased cash costs and capital write-offs together with lower quantities of metals sold were not matched by improved selling prices.

Comparative results (thousands of dollars) for the second quarter and the year to date on a consolidated basis are set forth below:

	1977		1976	
	Second Quarter	Six Months	Second Quarter	Six Months
Gross income	\$ 52,877	\$ 104,858	\$ 56,553	\$ 106,302
Costs and expenses	47,417	95,159	48,752	96,321
Earnings before taxes	5,460	9,699	7,801	9,981
Income taxes	2,664	4,212	3,176	4,121
Mining royalty taxes	—	—	—	—
Minority interest	3	7	4	8
Net earnings	\$ 2,793	\$ 5,480	\$ 4,621	\$ 5,852
Earnings per share	\$.22	\$.43	\$.36	\$.46
Dividends per share	\$ —	\$ —	\$.10	\$.20

Total revenue from product sales for the first six months of 1977 was very close to the record level achieved in the same period last year. A higher volume of fertilizer sales increased revenue from that source by 17% above the first six months of last year but a lower volume of metal sales reduced the revenue from metals by 5% below the comparable figure for 1976.

Nickel sales prices were about 15% higher than for the first six months of 1976 due mainly to the decreased value of the Canadian dollar. Pounds of nickel sold were 23% less than in the first half of 1976 and the nickel market remains very unstable, with substantial producer discounting occurring particularly during the month of June.

Fabricated metal product sales established a record level in the first half of 1977. Copper quantities sold were 6% less than the first half of 1976. London Metal Exchange copper prices, expressed in U.S. cents per pound, fluctuated widely during the six months, opening the year at about 62¢, rising to a high of slightly over 70¢ in March, falling to a low of 57¢ in June and ending the period at about 58¢. Despite these gyrations the Company averaged about 1¢ per pound better in the first half of 1977 than in the same period in 1976. Zinc sales volume was 14% less than in the first half of 1976 with average prices about the same although the price weakened in the latter part of the second quarter. About 11% of our production was stock-piled during the period, reflecting the weak zinc market.

The volume of nitrogen fertilizers sold was at a record level for both the second quarter and the first half of 1977. Nitrogen fertilizers sold in the first six months of 1977 were 19% over last year but prices decreased by about 5%. Phosphate fertilizers sold in 1977 were 40% higher than the first half of 1976 but prices were about 12% lower. As a result of a fine performance by our marketing personnel, nearly all our fertilizers were shipped by the end of the spring fertilizer season in early June.

At Ruttan Mine the tonnage milled during the quarter was 658,000 tons assaying 1.01% copper and 2.66% zinc. Ore production continued to be above target and waste stripping was about 25% over forecast. Equipment availability continued to improve. Zinc metallurgy was satisfactory but copper metallurgy was again adversely affected by a high percentage of north zone ore.

In the underground development program we have fallen about six weeks behind schedule largely because of the late delivery of development equipment. Also, a contractor has been having considerable difficulty with a raise borer which has delayed our main ventilation raise. In the underground drilling at Ruttan, further deep holes below the 1600 level are tending to confirm the hopes raised by earlier drilling that this area could provide a major addition to the underground ore reserves at Ruttan. The indicated ore grade still appears to be satisfactory although averaging lower than the best intersection reported at the annual meeting. In May the Directors authorized an \$800,000 program of additional deep drilling, including about 12 deep drill holes involving an estimated 16,000 to 20,000 feet of drilling, in an attempt to outline the ore body down to the 3000 level.

The Fox Mine continued to run well, with the tonnage milled during the second quarter increasing to 242,000 tons assaying 1.62% copper and 1.81% zinc. The mine stayed on a five-day-week schedule but the daily production rate was almost 25% above that recorded in 1976. The mill operated on a six-day-week basis with additional shifts to handle the increased mine tonnage. Metallurgy for the quarter was satisfactory although somewhat below the high levels established during the first quarter. Production costs per ton were slightly below first quarter costs but the lower copper price in the second quarter reduced the Fox Mine operation to a break-even point.

At Lynn Lake, all entrances to the underground mine were completely sealed and the cage hoist and two compressors were dismantled and prepared for transfer to Ruttan. The Lynn Lake Mine shops were kept busy repairing equipment for the other two mines. During the quarter, about \$750,000 was set up to cover liabilities and write-offs arising from the mine closure, bringing the total costs at Lynn Lake for the year to date to approximately \$1,200,000.

Nickel production at the Fort Saskatchewan refinery during the second quarter was 7,039,000 pounds, about 14% below the first quarter of the year. As was the case last year, the refinery was shut down for two weeks in May for annual maintenance work and to divert additional anhydrous ammonia to the agricultural market. Due to the current depressed nickel market, as evidenced by discounted prices and high inventory positions throughout the industry, Sherritt's nickel production for the balance of the year will be kept at a lower rate than during the first half. In contrast, cobalt production increased by 24% over the first quarter to 267,000 pounds. Based on an ample supply of cobalt feed material and a steady market for this metal we expect a record year for cobalt production.

Production of fabricated metal products increased to 1,198,000 pounds during the second quarter, exceeding the first quarter by about 4%. Nickel strip production for the Royal Canadian Mint was at a low level because of the low demand for Canadian coinage. Intensive international competition for all coinage business is making it increasingly difficult to maintain a high volume in the rolling mill and The Sherritt Mint. However, the production of medallions and special powders was maintained at a record level.

Production of nitrogen fertilizers in the second quarter was 70,000 tons, slightly less than in the first quarter. The phosphate plant was shut down for two weeks for annual maintenance work, decreasing phosphate fertilizer production to 30,000 tons, about 14% below the first quarter.

In our research division, piloting of Sherritt's Zinc Process, to be carried out jointly with Cominco and supported by the Federal Government, is planned to start during July. Production of our first order for Nickel-Bonded-Steel coins, 15,000,000 pieces of 5 centavos for El Salvador, was completed on schedule in our pilot plant.

Operations at the Nonoc Island nickel refinery of Marinduque Mining & Industrial Corporation in the Philippines showed a steady improvement. Nickel production exceeded 12,400,000 pounds, more than 20% higher than the production in the first quarter of the year. During the month of June the refinery operated at over 70% of capacity.

Financing arrangements have now been completed to refinance the present long-term debt of the Company and provide for the capital cost of developing the Ruttan Mine to the 1400 level. Final documentation and initial closing should be completed shortly. The proposed financing involves the issue of \$52,800,000 U.S. Income Debentures to the Canadian Imperial Bank of Commerce. The interest

on the Debentures, which is not allowed as a deduction for income tax purposes, currently would be approximately 4½% and will vary depending on the Canadian base rate for U.S. dollar loans. Repayment of the Debentures is by 28 quarterly payments of \$1,100,000 from September 30, 1980 until September 30, 1987 with a final "balloon" payment of \$22,000,000. The Debentures may be refinanced without penalty, can be converted to Canadian funds, can be converted to term notes, and are secured by a fixed charge on Ruttan Mine and a floating charge on all other assets of the Company. There is also a provision for additional principal repayments when profits are above a minimum cumulative level.

As part of the refinancing, the Series B bonds, U.S. funds, were repaid in June. The Statement of Earnings includes a foreign exchange loss on this transaction of about \$400,000 as a result of the weak Canadian dollar. Also, under terms of the refinancing, the portion of long-term debt previously due within one year is now not due until 1980 or later, so has been reclassified as long-term debt and is shown as a "Source of Funds" on the Statement of Changes in Financial Position.

As indicated by the symbol appearing on the upper left corner of the cover of this report, the Company is celebrating its fiftieth anniversary this year. The event is being marked with a number of special activities including the issue of a commemorative medallion by The Sherritt Mint and the publication of a condensed Sherritt history which will be included in the 1977 annual report of the Company.



David D. Thomas, President.

July 27, 1977.

**SHERITT GORDON MINES LIMITED**

P.O. Box 28, Commerce Court West, Toronto, Canada M5L 1B1

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Sherritt Gordon Mines Limited will be held in Commerce Hall, Commerce Court, Toronto, Ontario, on

Thursday, the 27th day of April, 1978

at the hour of 2:30 o'clock in the afternoon for the following purposes:

- (a) Receiving the Report of the Directors and the Financial Statements for the year ended December 31, 1977 and the Auditors' Report to the Shareholders;
- (b) Electing Directors;
- (c) Appointing Auditors and authorizing the Directors to fix the remuneration of the Auditors;
- (d) Transacting such other business as may properly come before the Meeting.

A copy of the 1977 Annual Report accompanies this Notice.

DATED at Toronto this 27th day of March, 1978.

By Order of the Board,

FRANK I. PIPER,
Secretary.

If you are unable to attend the meeting, would you kindly sign and return the enclosed proxy.

If you plan to attend the meeting, Commerce Hall is located on the Concourse level of Commerce Court.

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This Information Circular dated as of March 27, 1978 is furnished in connection with the solicitation by the Management of Sherritt Gordon Mines Limited (the Corporation) of proxies to be used at the Annual Meeting of Shareholders of the Corporation to be held on Thursday, the 27th day of April, 1978 at the time and place and for the purposes set forth in the attached Notice of Meeting. Solicitation will be primarily by mail, the cost of which will be borne by the Corporation.

APPOINTMENT OF PROXY

The persons named in the enclosed form of proxy are Officers of the Corporation. IF A SHAREHOLDER DESIRES TO APPOINT SOME PERSON TO REPRESENT HIM AT THE MEETING OTHER THAN THOSE DESIGNATED HE SHOULD INSERT SUCH PERSON'S NAME IN THE BLANK SPACE PROVIDED ON THE FORM OF PROXY OR COMPLETE ANOTHER FORM OF PROXY AND, IN EITHER CASE, RETURN IT TO THE SECRETARY OF THE CORPORATION.

REVOCATION OF PROXY

A Shareholder who has given a proxy may revoke it at any time prior to its use either (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Corporation, or (b) by signing a written notice of revocation and delivering it to the Secretary of the Corporation or the Chairman of the Meeting.

EXERCISE OF VOTE BY PROXY

Shares represented by properly executed proxies in favour of the persons designated in the enclosed form of proxy will be voted. SUCH SHARES WILL BE VOTED FOR THE ELECTION OF DIRECTORS AND THE APPOINTMENT OF AUDITORS AS STATED UNDER THESE HEADINGS IN THIS INFORMATION CIRCULAR. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. At the date of this Information Circular, the Management of the Corporation knows of no such amendment, variations or other matters to come before the Meeting other than the matters referred to in the Notice of Meeting.

VOTING SHARES AND PRINCIPAL HOLDER THEREOF

On February 28, 1978 the Corporation had outstanding 7,398,699 Class A shares with par value of \$1.00 per share and 5,369,901 Class B shares with par value of \$1.00 per share. Each share, of either Class, entitles the holder to one vote at all meetings of Shareholders.

Newmont Mining Corporation as of February 28, 1978 owned 5,052,651 Class B shares of the Corporation representing 39.57% of the outstanding shares. The Directors and senior Officers of the Corporation do not know of any other person or corporation who owns beneficially, directly or indirectly, more than 10% of the outstanding shares of the Corporation.

Only Shareholders of record at the time set for the Meeting will be entitled to vote at the Meeting or any adjournment thereof.

ELECTION OF DIRECTORS

The Board consists of nine Directors to be elected annually. Each Director so elected will hold office until the next Annual Meeting of Shareholders or until his successor is duly elected or appointed. It is the intention of the persons named in the enclosed form of proxy to vote for the election of the nominees whose names are set forth below, all of whom, with the exception of R. D. Lindberg, are now Directors of the Corporation and have been since the dates indicated. If any of the nominees should be unable to serve as a Director of the Corporation for any unforeseen reason, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion.

The following table sets out the name of each of the nine persons proposed to be nominated for election as a Director, his position with the Corporation (if any), his principal occupation or employment within the last five years, the year in which he became a Director of the Corporation and the number of shares of the Corporation that he has advised are beneficially owned directly or indirectly by him as of March 27, 1978.

<u>Nominees</u>	<u>Position with Corporation</u>	<u>Principal Occupation at Present and Within the Last Five Years</u>	<u>Became Director</u>	<u>Shares Beneficially Owned</u>
*W. E. P. DeRoche	Chairman of the Board	Partner, Blake, Cassels & Graydon, Barristers and Solicitors	1958	150
*Edward L. Donegan	—	Partner, Blake, Cassels & Graydon, Barristers and Solicitors	1968	—
W. A. Humphrey	—	Vice-President, Operations, Newmont Mining Corporation, 1975 to date; Executive Vice-President and General Manager, Cananea Consolidated Copper Company, 1971 to 1975	1976	—
*R. D. Lindberg	Vice-President, Mining	Vice-President of the Corporation, September, 1977 to date; Divisional Vice-President, Resource Development Group, International Minerals and Chemical Corporation, December, 1973 to September, 1977; Director of Production, Lavino Division, International Minerals and Chemical Corporation to December, 1973.	—	100
*V. N. Mackiw	Executive Vice-President	Vice-President of the Corporation	1964	562
Plato Malozemoff	—	Chairman of the Board and Chief Executive Officer, Newmont Mining Corporation, 1974 to date; President and Chairman of the Board, Newmont Mining Corporation, 1970 to 1974	1951	—
*J. H. Parliament	—	President Newmont Mines Limited, December, 1976 to date; President, Similkameen Mining Company Ltd., President, Granduc Operating Company, May, 1975 to December, 1976; Vice-President and General Manager, Granduc Operating Company, 1973 to May, 1975; Executive Vice-President, Similkameen Mining Company Ltd., 1968 to May, 1975	1975	—
*David D. Thomas	President	President and Chief Executive Officer of the Corporation	1964	1,146
J. E. Thompson	—	President, Newmont Mining Corporation, 1974 to date; Vice-President, Newmont Mining Corporation, 1970 to 1974	1964	100

*"resident Canadian" nominees

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration paid or payable by the Corporation in the last financial year to the Directors and senior Officers of the Corporation amounted to \$533,000.

PENSION BENEFITS

The estimated aggregate cost to the Corporation in the last financial year of all pension or retirement benefits proposed to be paid to Directors and senior Officers of the Corporation under existing plans in the event of retirement at normal retirement age was \$73,000.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the re-appointment of Deloitte, Haskins & Sells, Chartered Accountants, as Auditors of the Corporation to hold office until the next Annual Meeting of Shareholders. Messrs. Deloitte, Haskins & Sells have been Auditors of the Corporation for more than the past five years.

Dated at Toronto as of the 27th day of March, 1978.

Report of the Directors

In spite of the weakening in world metal prices, which have a great impact on Sherritt's results, earnings in 1977 were \$4,166,000 (33¢ per share) compared to \$4,131,000 (32¢ per share) earned in 1976. Gross income declined slightly to \$181,980,000 in 1977 from \$183,062,000 in 1976. Total costs and write-offs did not increase from 1976 and income taxes were somewhat reduced. The year-end dividend of 15¢ a share was a substantial reduction from the 35¢ paid in 1976. Working capital increased by \$32,060,000 as a result of major long-term debt financing to provide funds for underground development at Ruttan.

There was no basic improvement during 1977 in the markets for the base metals produced by our Mining Division. World prices for both copper and zinc declined significantly from 1976 average levels. Fortunately a substantial weakening in the Canadian dollar during 1977 partially offset these declines. To solve current oversupply, which severely depresses copper and zinc prices, reduction of world-wide production is required. Until this occurs on a scale sufficient to bring supply and demand into balance, our Mining Division will continue to be a drain on Company earnings as our costs exceed current prices.

It is most encouraging that our other operating divisions, all representing growth and diversification from base metal mining at various stages in Sherritt's history, made significant profit contributions in 1977. Earnings from fertilizers, metal refining and fabricated metal products all showed substantial improvements over 1976.

Throughout the 1960's, profits from our fertilizer and refining operations were relatively modest and our fabricated metal business was in its infancy. These businesses have now expanded and matured and are showing satisfactory returns on investment. Sherritt's nickel refinery, for example, although it operates completely on feed from outside sources, has become a viable unit despite the closure of our Lynn Lake nickel mine and the generally depressed nickel market. A small cobalt plant, which was an offshoot of the nickel operation, has been expanded and was a substantial profit earner in 1977. These operations were natural outgrowths from our mining base and we hope to continue expansion in similar areas.

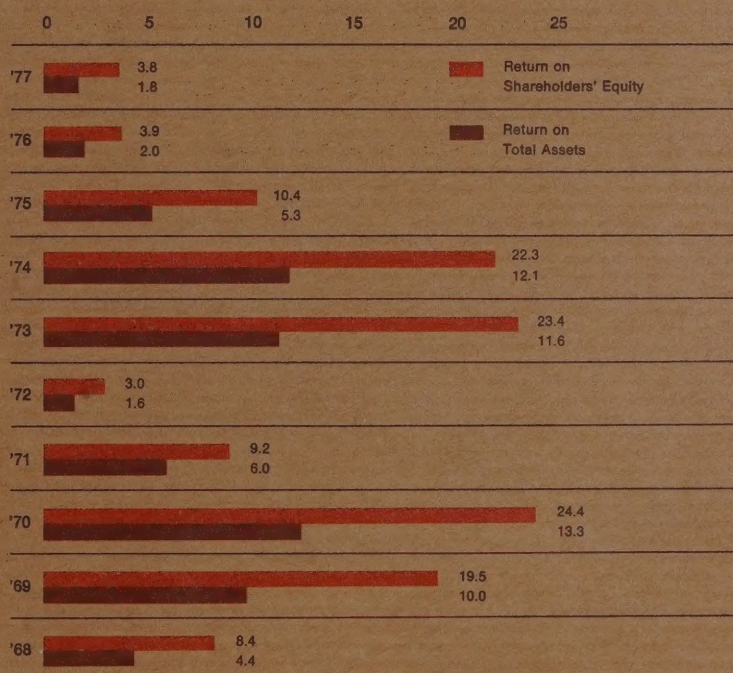
Ruttan and Fox Mines operated at about the same level of copper production in 1977 as in the previous year. However, overall zinc production decreased by about 8% and of this production 12% had to be stockpiled as unsold metal. The drop in zinc sales together with lower average metal prices and higher write-offs at Fox substantially increased the total book loss in the Mining Division over 1976. Generally, operations were satisfactory but metal price increases are essential to achieve acceptable

results. Following a thorough restudy of Ruttan, your Directors decided to proceed with the underground development program down to the 1400 level. The development program will be carried out over the next two years with production from underground commencing in the first half of 1979. In the course of the study certain changes were made to the mining plan which should significantly improve the future economics of the Ruttan operation. As a result the projected unit costs per pound of metal should be competitive with existing western-world production and Ruttan should enjoy a substantial cost advantage over new copper production.

As earlier announced, financing for the development program together with a restructuring of existing long-term debt was completed. The Company's long-term debt now consists of \$52,800,000 U.S. in Income Debentures. The interest, which is not allowable as a deduction for income tax purposes, is currently 5.3% and fluctuates with U.S. dollar lending rates. No principal repayments are due on the debt until September, 1980. The Debentures are also convertible at our option to Canadian funds or to term notes and may be repaid prior to maturity without penalty.

The operating level of the nickel refinery was about 4% below 1976 but close cost control, a substantial increase in cobalt production, and the weaker Canadian dollar contributed to improved financial results. Also higher profits were made from increased production and sales of

Return on Shareholders' Equity and Total Assets (%)



fabricated metal products primarily because of increased demand for nickel strip and coinage. There were some minor shortfalls under our gas contract late in the year. Negotiations continued with the supplier of natural gas to the refinery to ensure a continuity of supply at somewhat higher prices. Nickel markets remain depressed and we plan a further reduction in operating levels in 1978 in an effort to match production to anticipated sales.

Fertilizer production, sales, and profits improved mainly due to expanded phosphate markets and a record demand for ammonia. Sherritt continues to build its domestic fertilizer markets through the efforts of a dedicated, independent dealer organization which we believe is the best in western Canada.

In mid 1976 your Company acquired Thio-Pet Chemicals Ltd. In 1977, its first full year under Sherritt management, sales of hydrogen sulphide and other specialty chemicals produced at Thio-Pet's Fort Saskatchewan plant exceeded \$1,500,000, almost double the previous year. A significant contribution was made to Sherritt's profit. A number of opportunities are being examined for expansion in the specialty chemical field.

We continued our activities in the process and product development areas. Sherritt's direct pressure-leaching process for zinc concentrate was demonstrated in the pilot plant during the year with favourable results. A project was undertaken to develop a suitable process for the treatment of uranium-nickel ore for the Key Lake, Saskatchewan, joint venture. As a large part of our research was done for outside parties, net expenditure for Sherritt's account was substantially below the previous year. Mineral exploration activities were mainly concentrated near our existing mine sites in partnership with the Manitoba Government.

It is difficult to find compelling reasons for optimism about business conditions during 1978. No significant improvement is anticipated in world copper and zinc prices although the continuing weakness of our dollar will provide assistance to Canadian producers. Nickel markets will remain weak but we are hopeful of maintaining our competitive position as a custom refiner of nickel and cobalt. We also anticipate profitable results from our fertilizer and fabricated metals divisions. Overall profits, though, will continue to be well below satisfactory levels. ✓

Sherritt celebrated its 50th anniversary in 1977. This event represents a unique opportunity for a company to review its history and we believe Sherritt's history of growth as a Canadian resource company is one which should be of considerable general interest. It highlights both the risks and the accomplishments inherent in the discovery, development, and processing of base metals. It also illustrates the positive results which can be achieved by

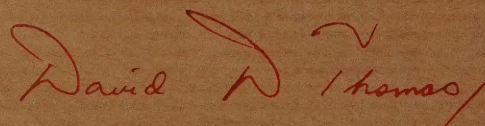
Canadian research efforts. Through this research Sherritt has become a more broadly diversified resource company as well as an international marketer of technology. Unfortunately, under present conditions, it was not felt appropriate to undertake the rather costly task of publishing a complete history, although we have attempted to cover the highlights in another section of this report.

We are confident that, in time, base metal markets will improve and your Company will be in a strong position to continue its pattern of growth in resource development. We also believe that because of the currently depressed conditions there is now a growing awareness of the cyclical nature of the base metal business. It is becoming increasingly apparent that a healthy mining business is vital to Canada's future. Taxation and economic environment must provide a climate in which resource companies can build sufficient earnings to maintain financial viability during periods such as the one we are currently facing.

In September, 1977 Robert D. Lindberg was appointed Vice-President, Mining. Mr. Lindberg's extensive experience in the mining industry is proving a real asset during this difficult period for base metal mining.

Your Directors thank all employees of Sherritt for their efforts and loyalty during a difficult year.

On behalf of the Board of Directors,



David D. Thomas, President,
Toronto, Ontario,
February 23, 1978.

Operations

Ruttan Mine	1977	1976
Ore milled (tons)	2,487,000	2,661,000
% copper	1.13	1.08
% zinc	1.95	2.14
Copper in copper concentrate (lbs.)	50,341,000	50,067,000
Zinc in zinc concentrate (lbs.)	78,250,000	93,097,000

At Ruttan Mine tonnage mined and milled in 1977 was just below the target level of 2,500,000 tons and was approximately 7% under 1976. The copper grade improved and copper production was maintained but the zinc grade was down and zinc production was 16% below the previous year. The mine showed a significant operating loss for the year.

The availability of open pit equipment improved significantly in 1977, offsetting the increased haulage distances associated with depth. As a result, the cost per ton hauled from the pit was less than in 1976.

In early 1977, and again at year end, excessive breakdowns in the primary crushing circuit reduced mill throughput. During the last half of December the primary crusher was disassembled and relined. Concentrator performance was satisfactory throughout the year.

In November, a revised pit mining plan was initiated which raised the pit bottom by over 100 feet to the 600 level. The new plan reduced the open pit size, the stripping ratio, and open pit ore reserves. The ore lost to pit mining will be recovered through underground stopes, permitting sustained annual production rates of 2,500,000 tons through 1982.

Ruttan open pit reserves at December 31, 1977 are estimated at 5,019,000 tons grading 1.37% copper and 1.78% zinc before allowance for dilution.

Following completion of financial arrangements at mid-year, underground development has progressed satisfactorily. First underground production is planned for the first half of 1979.

In May, 1977 the Board approved expenditure of \$800,000 to implement a deep drilling program at Ruttan to evaluate the ore potential between the 2000 and 3000 levels. Initial progress was handicapped by difficulty in controlling both the magnitude and direction of drill hole deviations. Three holes have now been completed and a fourth is in progress. This drilling has shown significant widths and grades of potential ore at the 2400 and 2500 levels but it is too early to predict what additional reserves will be identified by the program.

Underground diamond drilling, plus the redesign of the pit, resulted in an increase of confirmed underground reserves above the 1400 level to 16,130,000 tons grading 1.80% copper and 1.18% zinc before allowance for dilution.

Drilling results below the 1400 level at Ruttan, like those previously mentioned, have been encouraging but insufficient to allow reassessment of tonnages and grades. Consequently this reserve block is still estimated on the basis of original surface drill results at 9,290,000 tons grading 1.82% copper and 1.09% zinc.

Fox Mine	1977	1976
Ore milled (tons)	890,000	832,000
% copper	1.46	1.56
% zinc	1.93	1.68
Copper in copper concentrate (lbs.)	24,042,000	24,232,000
Zinc in zinc concentrate (lbs.)	24,841,000	18,904,000

Operations at Fox Mine continued at an efficient but only marginally profitable level during 1977. Tonnage mined and milled was 7% above 1976. The copper grade declined but production was maintained in line with 1976. The zinc grade improved and production increased by 31%. Combined mining and milling cost per ton was slightly below the 1976 cost.

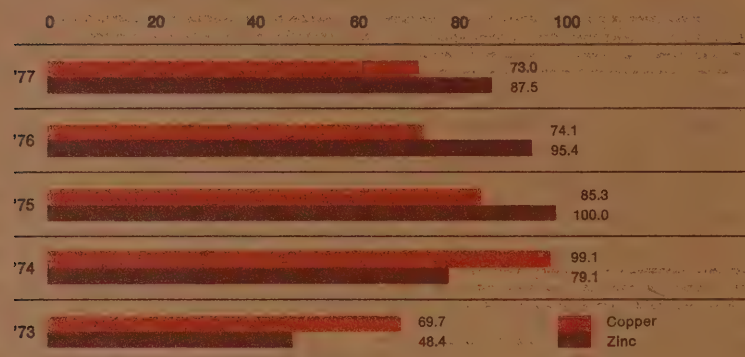
Underground development was sustained at minimal levels consistent with the current production rate and sound mining practice. The decline access to the 2400 level was completed.

Pillar recovery supplied 58% of the total mine output in 1977. This accelerated recovery program is designed to prevent stress build-up in the remaining stope areas, and is dictated by the overall rock mechanics at Fox Mine. Mill operations were steady and effective. Zinc recoveries and concentrate grades showed a marked improvement in response to changes in metallurgy and the circuitry.

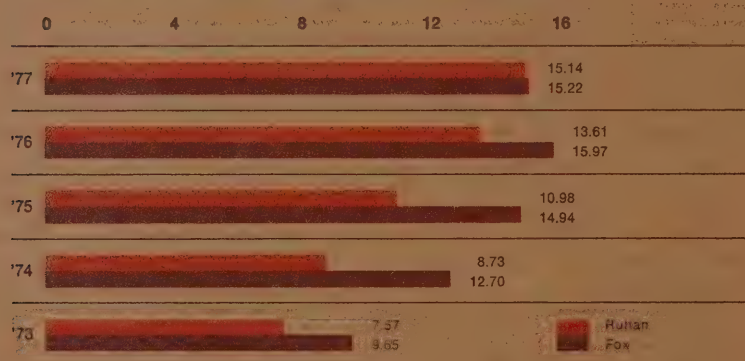
Fox Mine ore reserves on December 31, 1977 are estimated at 7,093,000 tons grading 1.83% copper and 2.12% zinc before allowance for dilution. A drilling program from the 2400 level was undertaken to delineate magnitude and configuration of the orebody below the 2400 level as well as to establish its grade. Early results are encouraging, although insufficient to dictate a reassessment of reserves below 2400 at this time.

At Lynn Lake final inventory write-offs, losses on mortgage guarantees, early retirement accruals, and continuing salvage costs totalled \$1,506,000 during the

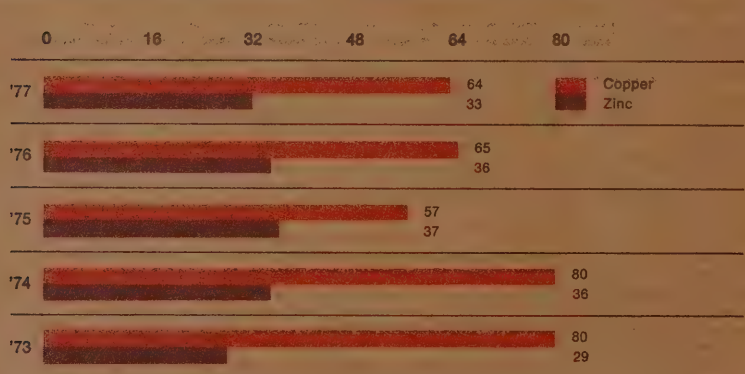
Production — Mine Concentrates (million lbs.)



Cash Production Cost per Ton Milled (dollars)



Average Price Received — Copper, Zinc (¢ per lb.)



Copper, Zinc and Precious Metals Sales Revenue

(figures in thousands) 1977 1976

Copper	\$48,595	\$49,590
Zinc	25,605	35,616
Precious Metals	6,305	4,946
Total	\$80,505	\$90,152

year. Proceeds from the sale of surplus material and equipment were minimal but a mine hoist, headframe, and compressor were transferred to the underground mine at Ruttan.

The Lynn Lake shops now function as part of the overall division facilities and are assuming an increasing proportion of the total repair and rebuild work for the two operating mines. Closure of the Lynn Lake camp facilities has been announced and will be effective in March, 1978.

Markets

Copper

No basic improvement was achieved in the world supply-demand balance for copper during 1977 and, as a result, prices which showed some strength in early 1977 were, on average, weaker than in 1976. The LME average price, on which the bulk of our sales is based, fell from 64¢ U.S. in 1976 to 59¢ U.S. in 1977. This drop was offset by a weakening in the Canadian dollar and we realized an average of 64¢ Canadian for copper in 1977 compared to 65¢ in 1976. While current prices are well below those needed to provide even a reasonable profit on existing operations, there appears to be no reason to expect any meaningful upward price movement during 1978.

Zinc

Zinc prices have softened throughout 1977 and serious oversupply continues to plague the industry. Sherritt averaged 33¢ for its zinc sold in 1977, down from 36¢ in 1976. We have agreed to participate in storing some unsold zinc metal produced from Ruttan concentrate and to a further deferral of certain Ruttan concentrate shipments. A slight increase in world inventories is expected during 1978 but prices are still under pressure and our 1978 average price will probably be less than in 1977.

Ore Reserves

(figures in thousands except percentages)

	1977			1976		
	Tons	% Copper	% Zinc	Tons	% Copper	% Zinc
Ruttan Mine (undiluted)						
Open pit	5,019	1.37	1.78	7,805	1.30	1.9
Underground						
to 1400 level	16,130	1.80	1.18	14,186	1.91	0.9
1400 to 2000 level	9,290	1.82	1.09	10,056	1.80	1.0
Total underground	25,420	1.81	1.15	24,242	1.87	1.0
Total ore reserve	30,439	1.74	1.25	32,047	1.73	1.2
Fox Mine (undiluted)						
Underground						
to 3000 level	7,093	1.83	2.12	7,836	1.95	2.1

Metal Refining

Operations

Refined nickel production during 1977 amounted to 26,688,000 pounds, 4% below the previous year's production. The refinery operated at about 70% of capacity. Not only were concentrate and matte-feeds limited but the depressed nickel market, particularly during the last half of the year, dictated a reduction in production to avoid excessive nickel inventories. Production of copper sulphide, a by-product of nickel refining, amounted to 2,507,000 pounds of contained copper, about 6% below 1976.

Record refined cobalt production of 1,011,000 pounds was more than 50% above 1976 production. This substantial increase came from a greater supply of cobalt-bearing materials from a number of foreign sources, some as a by-product of nickel refineries employing Sherritt's licensed processes. A number of improvements and additions were made to the cobalt refining circuit to reach this production level.

Markets

A very serious oversupply situation exists in the world nickel industry. Efforts are currently being made by all major producers to adjust their output to current demand but substantial inventories which have accumulated during the past few years overhang the market.

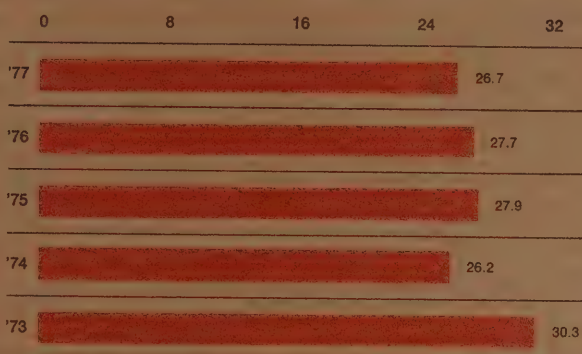
Revenue from sales of refined nickel and cobalt amounted to \$43,479,000, a decrease of 6% from 1976. Refining operations were profitable due to increased cobalt production and the positive effect of the weaker Canadian dollar on sales revenues.

The world market supply of cobalt increased over 1976 as new delivery channels were used for the cobalt produced in central Africa; nevertheless, demand was good especially during the first half of 1977. The world price rose twice and our average realized price was \$6.21 per pound. As a North American supplier, Sherritt is in a strong position to expand its cobalt business.

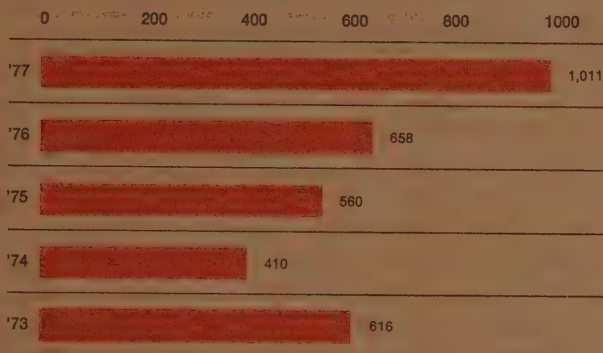
Nickel and Cobalt Sales Revenue

	(figures in thousands)		1977	1976
Nickel	18,165 lbs.	\$ 39,156	22,454 lbs.	\$ 43,428
Cobalt	696 lbs.	4,323	629 lbs.	2,771
Total		\$ 43,479		\$ 46,199

Production Refined Nickel (million lbs.)



Production Refined Cobalt (thousand lbs.)



Fabricated Metal Products

Fertilizers

Operations

Total production of fabricated metal products reached a record 5,355,000 pounds, almost double the previous year. Output of nickel strip, coinage blanks, medals and tokens as well as special powders all showed a substantial increase. Sherritt's Nickel-Bonded-Steel coinage (N-B-S),* a unique, competitive, coinage material, gained commercial acceptance during 1977. The N-B-S production facility is currently being expanded to meet a growing market for this new coinage material.

Fabricated Metal Products Production

(figures in thousands of pounds)

	1977	1976
Nickel products	4,681	2,151
Cobalt products	27	21
Alloy, composite and other metal products	173	216
Custom fabricated nickel products	474	375
Total	5,355	2,763

Markets

Revenue from sales of 5,332,000 pounds of fabricated metal products reached a record level of \$18,146,000, almost 80% above 1976. Sales of nickel strip to the Royal Canadian Mint increased as the domestic demand for coins improved. Exports of nickel coin blanks were much higher than in 1976, in part due to replacement in two countries of low-value bank notes by pure nickel coins. The Sherritt Mint struck the first legal tender coin in Nickel-Bonded-Steel, 5-centavo coins for the Central Bank of El Salvador. The volume of sales of medals and tokens from The Sherritt Mint increased by 80% over 1976. Sales of special powders and composite powders increased by 3% as we continued to broaden our market for these specialty products.

Fabricated Metal Products Sales Revenue

(figures in thousands)

	1977	1976
Nickel products	4,642 lbs. \$ 15,831	2,328 lbs. \$ 7,951
Cobalt products	22 lbs. 196	31 lbs. 205
Alloy, composite and other metal products	159 lbs. 1,637	182 lbs. 1,663
Custom fabricated nickel products	509 lbs. 482	340 lbs. 318
Total	5,332 lbs. \$ 18,146	2,881 lbs. \$ 10,137

Operations

Production of all types of salable fertilizers was 401,000 tons in 1977, 25% more than in 1976. Although production of some nitrogen fertilizers rose from the previous year, the major growth was in phosphate fertilizers which increased from 65,000 tons in 1976 to 137,000 tons.

Fertilizer shipments were strong during the spring season and all inventories were virtually depleted. Although damp, cool weather on the Prairies delayed the harvest, fall shipments were good. We expect 1978 production to be approximately the same as in 1977.

Over the past five years a number of improvements and additions have been built into our ammonia production and storage facilities. As a result our production of anhydrous ammonia has steadily increased and is now a substantial source of revenue within Sherritt's fertilizer business. An additional compressor is being installed to permit a further small increase in ammonia production. The new urea granulation plant, which will improve the quality of this product, will be in operation during the second quarter of 1978.

Markets

Tons of fertilizer sold, sales revenue, and profit were all higher in 1977 than in 1976. A number of factors contributed to the improved performance. Sherritt's dealer and distributor organization in western Canada continued to increase its sales volume. Our purchase price of phosphate rock decreased and this allowed us to sell phosphate fertilizers in a wider market area. The decreased value of the Canadian dollar also improved the profitability of our sales in the United States.

Production of ammonia in western Canada more than doubled in 1977 with the completion of three world-scale plants. The full impact of this increased production on the marketplace will not be felt until 1978. Sherritt still expects to be able to sell all the fertilizer it can produce in 1978.

Fertilizer Sales Revenue

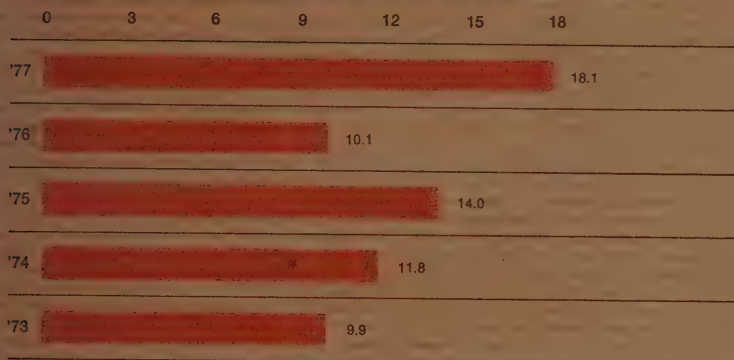
(figures in thousands)

	1977	1976
Nitrogen	274 tons \$ 22,867	242 tons \$ 20,699
Phosphate	111 tons 11,851	83 tons 10,849
Total	385 tons \$ 34,718	325 tons \$ 31,548

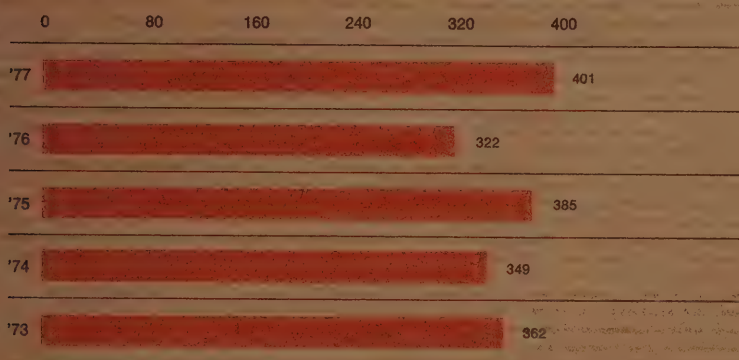
* Sherritt Trademark

Development

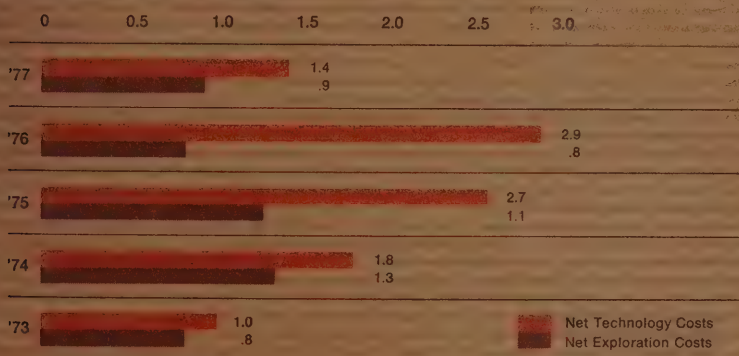
Fabricated Metal Products Sales (\$ millions)



Fertilizer Production (thousand tons)



Development (\$ millions)



Product Development

Research on materials for high-temperature abrasable seals for turbine engines continued with samples of new products being tested by a number of potential users.

Assistance under the Enterprise Development Program (EDP) of the Department of Industry, Trade and Commerce was received in mid-year to develop the techniques for processing atomized alloy powders specifically suited to commercial strip production processes.

A pilot plant program for the production of ultrafine cobalt powder for the manufacture of cemented carbide parts was successfully completed.

Process Development

A joint venture pilot plant program, with 50% funding under an EDP grant, was conducted with Cominco Ltd. during 1977 to further develop Sherritt's direct pressure-leaching process for zinc concentrate. The Sherritt process, which is applicable to most zinc sulphide concentrates, produces elemental sulphur and eliminates atmosphere pollution by sulphur dioxide gas. In addition, the process can achieve extractions as high as 98% so residue treatment is not necessary. With the favourable results which were obtained in piloting, the potential for commercial application is high.

During 1977 a project was begun to develop an environmentally acceptable process for the treatment of Key Lake uranium-nickel ore from Saskatchewan. This work is being done for Uranerz Exploration and Mining Limited, operator for a joint venture which includes Saskatchewan Mining Development Corporation and Inexco Mining Company (Canada) Limited.

Mineral Exploration

Outside exploration was conducted throughout the year in Canada with emphasis on northern Manitoba. The main exploration efforts were concentrated on areas around our existing mining operations on a 50/50 cost-sharing basis with the Manitoba Government. In total, eleven joint ventures were undertaken. Although interesting base metal values were intersected by drilling in two locations, where work is continuing, nothing of economic importance has been found. The total expenditure on outside exploration ventures during 1977 was \$1,448,000 with our net cost being \$879,000.

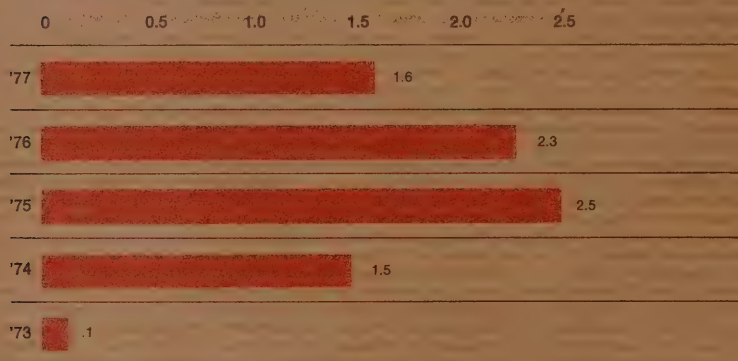
Because of the depressed state of the base metal industry, the exploration budget for 1978 has been reduced. As the new Manitoba Government no longer plans to participate directly in exploration programs, we are actively seeking other partners to allow continuation of a worthwhile program in Manitoba.

Revenue from licensing of Sherritt's technology amounted to \$1,608,000 in 1977, a drop of 30% from 1976. The decrease results primarily from a reduction in payments from a major licensee of Sherritt technology.

Production of nickel in the form of nickel powder, briquettes, and mixed nickel-cobalt sulphides by Marinduque Mining & Industrial Corporation in the Philippines was 48,200,000 pounds in 1977, a significant improvement from the 33,500,000 pounds produced in 1976. Cobalt contained in mixed sulphides amounted to 2,360,000 pounds. The nickel refinery, which uses Sherritt's process, has been increasing its annual production steadily and during 1977 reached 65% of design capacity. Although higher production is attainable, the refinery is expected to operate during 1978 at about 50,000,000 pounds, because of present nickel market conditions.

On the nickel laterite project of P.T. Pacific Nikkel Indonesia only a limited amount of work was done during 1977. The project is being held in abeyance pending improvement in the nickel market and completion of suitable financing and partnership arrangements to build the commercial facilities.

Technology Licensing Revenue (\$ millions)



The total work force remained relatively stable during 1977. Rates of turnover dropped throughout the year. Some shortages still exist for certain skilled trades but recruiting difficulties have moderated considerably during the last 12 months.

In the next two years, as the open pit at Rutan nears completion, considerable effort will be required to maintain a full complement of employees. Part of our effort will include a program to encourage present pit employees to train for and accept positions underground as the changeover takes place.

Negotiations at Fort Saskatchewan last spring with the Canadian Chemical Workers' Union, Local 530, resulted in a one-year renewal agreement which will expire April 30, 1978. The new contract was ratified by a good majority and was approved by the Anti-Inflation Board. The contract with Locals 5757 and 8144, United Steelworkers of America, which covers hourly-rated employees in the Mining Division, will not expire until May 31, 1979.

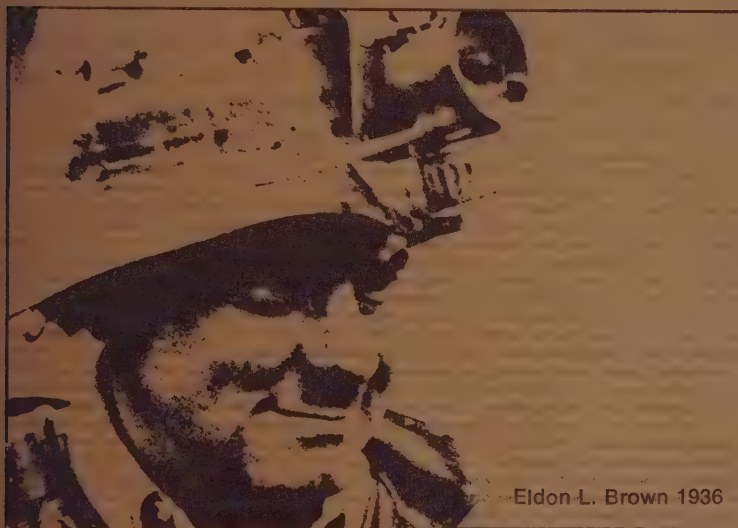
As part of Sherritt's 50th anniversary celebrations, all employees were presented with a commemorative medal struck by The Sherritt Mint. In addition, the Company presented a record number of service awards during the year, including awards to 19 employees in recognition of 25 years of service and to 4 employees in recognition of 40 years of service.

During 1977, Sherritt continued to supply technical assistance to Marinduque Mining & Industrial Corporation and, at year end, 18 employees were on long-term assignment on Nonoc Island in the Philippines.

Personnel	1977	1976
Mining and Milling	1,131	1,122
Metals, Fertilizers and Research	929	942
Corporate Office	51	49
Total	2,111	2,113

Sherritt's Fifty Years: A Brief Look Back

In 1923 a copper-zinc prospect in northern Manitoba was staked by Carl Sherritt, a trapper-pro prospector. Carl gave J. P. Gordon an option to promote the property. In 1927 Bob Jowsey became interested, and together with Thayer and Halstead Lindsley incorporated a new company, Sherritt Gordon Mines Limited, to acquire the property. They hired Eldon L. Brown, as Superintendent, **Sherritt's first employee.**



Eldon L. Brown 1936

By 1928 sufficient ore was discovered to justify mining. The town of Sherridon, 42 miles of railroad, a 40-mile power line, and a 1,500-ton-per-day concentrator were built. Production began in 1931 but by June, 1932, with copper selling at 5 cents and costs of 5.6 cents, the mine had to be shut down. It was reopened in 1937 and operated continuously until 1951 when the last ore was extracted.

The Company, under Eldon Brown, kept prospectors in the field. One of these, Austin McVeigh, found a small nickel-copper outcrop 120 miles north of Sherridon in the fall of 1941 but due to the war no claims were staked. In 1945, diamond drilling located ore, a large block of ground was staked, and geophysical work and drilling found five nickel-copper orebodies.

By 1950 the total Lynn Lake ore reserve was over 14,000,000 tons including one real bonanza orebody of 2,500,000 tons grading 2.5% nickel and .93% copper. This was sufficient ore to justify the 145 miles of railroad from Sherridon, a 2,000-ton-per-day plant, and a new hydroelectric plant. After 1951 the Sherridon plant was dismantled, moved by tractor train over a winter road, and rebuilt at Lynn Lake. Finally, practically the whole town was relocated; the bank, two churches, a post office, a school, and 200 houses made the trip over the winter road. The Lynn Lake Mine operated continuously from

November, 1953 until June, 1976 when all economic ore was exhausted.

Early in the development of the Lynn Lake prospect it had become evident that there would be no market available for nickel concentrate from the proposed mine. In 1947 Frank A. Forward of the University of British Columbia was retained to develop a process to recover nickel from Lynn Lake concentrate. Forward invented an ammonia leaching process, and, after three years of further research, development and piloting of the process by Sherritt in Ottawa, a decision was made to build a nickel refinery. The refinery, located at Fort Saskatchewan, Alberta, primarily because of the availability of low-cost natural gas, came on stream in 1954. It produced pure nickel powder and ammonium sulphate, a nitrogen fertilizer, as a by-product. Over the years the refinery was expanded, a cobalt plant was added, and additional fertilizer plants were built to produce other nitrogen and phosphate fertilizers. Sherritt researchers developed a process for the direct rolling of nickel powder into strip and in 1961 nickel strip was made from which coin blanks were punched for the first all-Canadian-made 5-cent pieces. Subsequently The Sherritt Mint was established to strike finished coins for national governments as well as commemorative medals and tokens.

In 1960, using airborne geophysical equipment, the Fox Mine was located 25 miles southwest of Lynn Lake. Fox went into production in 1970 with a 3,000-ton-per-day concentrator and mining from a 12,000,000-ton copper-zinc orebody. Again, in 1968, an airborne survey discovered an anomaly, 60 miles southeast of Lynn Lake. This became Ruttan Mine which was brought into production in 1973 as an open pit with a 10,000-ton-per-day concentrator and mining from a 50,000,000-ton copper-zinc orebody. A new townsite, Leaf Rapids, was built on the Churchill River by the Manitoba Government for Ruttan employees. In 1977 it was decided to develop the underground ore at Ruttan, with production from underground scheduled to begin in early 1979.

In northern Manitoba over the past 50 years Sherritt has opened four mines, built two hydroelectric plants, was responsible for the 187-mile rail extension, and was involved in the development of three townsites, thus making an important contribution to the development of the Canadian North. In Alberta, Sherritt's Fort Saskatchewan plants have become the largest single-location industrial employer in that province. Sherritt's metallurgical technology, developed at Fort Saskatchewan, is being used under license around the world in refineries in Finland, Australia, South Africa, the Philippines, and Japan.

Carl Sherritt would be proud of our progress.

Consolidated Balance Sheet

as at December 31, 1977
with 1976 figures for comparison
(thousands of dollars)

Assets	1977	1976
Current		
Cash, including interest-bearing deposits	\$ 1,559	\$ 1,560
Accounts receivable		
Trade	35,681	22,818
Other	404	1,252
Inventories (note 2)	72,145	59,152
Insurance and other prepaid items	238	407
	110,027	85,189
Fixed (note 3)		
Property, plant and equipment	180,139	171,942
Less accumulated depreciation	99,267	92,322
	80,872	79,620
Unamortized development costs	26,906	24,878
	107,778	104,498
Other		
Employee housing and other loans	4,796	4,755
Investments at cost less amounts written off (note 4)	10,338	10,338
Patents at cost less amounts written off	745	707
	15,879	15,800
	\$ 233,684	\$ 205,487

Approved by the Board:
David D. Thomas, Director
Edward L. Donegan, Director



The accompanying notes are an integral
part of the financial statements.

Liabilities and Shareholders' Equity

	1977	1976
Current		
Bank indebtedness (note 5)	\$ 10,357	\$ 22,876
Accounts payable and accrued	24,470	18,426
Dividends payable	1,915	—
Income and mining royalty taxes	3,085	2,186
First Mortgage Bonds (note 6)	—	3,561
	39,827	47,049
Long-Term Debt (note 6)	57,275	24,731
Deferred Income Taxes	27,020	26,470
Minority Interest	26	24
Shareholders' Equity (note 7)		
Capital		
Capital stock	12,769	12,754
Contributed surplus	25,789	25,732
	38,558	38,486
Retained Earnings	70,978	68,727
	109,536	107,213
	\$ 233,684	\$ 205,487

Auditors' Report

To the Shareholders of Sherritt Gordon Mines Limited:

We have examined the consolidated balance sheet of Sherritt Gordon Mines Limited and its subsidiary companies as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1977 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte, Haskins & Sells, *Chartered Accountants*,
Toronto, Ontario, February 10, 1978.

Consolidated Statement of Earnings

Sherritt Gordon Mines Limited and subsidiary companies

for the year ended December 31, 1977
with 1976 figures for comparison
(thousands of dollars)

	1977	1976
Gross Income		
Metal sales	\$ 143,886	\$ 147,884
Fertilizer sales	34,718	31,544
Technology licensing and other income	3,376	3,634
	181,980	183,062
Costs and Expenses		
Operating costs	153,405	154,337
Technology	1,394	2,886
Exploration	879	802
Selling and administrative	5,073	4,041
Interest	4,062	4,004
Depreciation and amortization	10,759	9,680
	175,572	175,750
Earnings Before Taxes	6,408	7,312
Income taxes — Current	1,677	2,815
— Deferred	550	350
Mining royalty taxes	—	—
	2,227	3,165
Net Earnings Before Minority Interest	4,181	4,147
Minority interest in net earnings of subsidiary	15	16
Net Earnings	\$ 4,166	\$ 4,131
Earnings Per Share	\$.33	\$.32
Dividends Per Share	\$.15	\$.35

Consolidated Statement of Retained Earnings

for the year ended December 31, 1977
with 1976 figures for comparison
(thousands of dollars)

	1977	1976
Balance at the beginning of the year	\$ 68,727	\$ 69,056
Net earnings	4,166	4,131
	72,893	73,187
Dividends (note 7)	1,915	4,460
Balance at the end of the year	\$ 70,978	\$ 68,727

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Changes in Financial Position

Sherritt Gordon Mines Limited and
subsidiary companies

for the year ended December 31, 1977
with 1976 figures for comparison
(thousands of dollars)

1977 1976

Funds Were Obtained From

Operations for the year

Net earnings

\$ 4,166 \$ 4,131

Amounts deducted in arriving at net earnings
which did not involve an outlay of funds

Depreciation and amortization

10,793 10,124

Deferred income taxes

550 350

15,509 14,605

Issue of Income Debentures

57,275

Issue of capital

72 105

Capital research grants

428

Other — net

2 3

72,858 15,141

Funds Were Used For

Expenditures on capital and deferred assets

Mining

8,642 3,975

Refining and fabricating

210 1,317

Fertilizer

5,138 353

Research and patents

121 339

Employee housing and other loans

41 196

14,152 6,180

Dividends

1,915 4,460

Repayment of First Mortgage Bonds

24,731 4,833

40,798 15,473

Increase (Decrease) in working capital

32,060 (332)

Working capital at beginning of the year

38,140 38,472

Working capital at end of the year

\$ 70,200 \$ 38,140

The accompanying notes are an integral
part of the financial statements.

Notes to Consolidated Financial Statements

December 31, 1977

Sherritt Gordon Mines Limited and subsidiary companies

1. Summary of Accounting Policies

a) Principles of Consolidation

The consolidated financial statements include the accounts of Sherritt Gordon Mines Limited and its active subsidiary companies, Sherritt Fertilizers, Inc., Sherritt Gordon Airtransport Limited, Michipicoten Iron Mines Limited, and Thio-Pet Chemicals Ltd.

b) Translation of Foreign Currencies

Transactions in foreign currencies are translated into Canadian dollars at rates prevailing at the time of such transactions, except that current assets and current liabilities are translated at the rate of exchange at year end.

c) Inventory Valuation

Mine production is valued at estimated net realizable value. Other finished products, raw materials, material in process, and operating supplies are valued at the lower of average cost and net realizable value.

d) Exploration and Development Costs

Costs of exploring for new ore occurrences are charged to income in the period in which they are incurred. Development costs relating to a new ore occurrence are deferred until production commences after which only development costs of a capital nature are deferred.

e) Depreciation and Amortization

Depreciation of plant and equipment costs and amortization of development costs and patents are charged to income as follows:

i) Ruttan Mine and Fox Mine: depreciation and amortization of the assets of the mines are charged to operations using the unit of production method based on metallic content of the estimated recoverable ore reserves.

ii) Lynn Lake: this mine was shut down in June, 1976. The remaining Lynn Lake assets are recorded at estimated salvage value.

iii) Metal and Chemical: depreciation is provided over the estimated useful life of the asset.

iv) Patents: amortization is provided over the life of the patent.

f) Income Taxes

The Company follows the tax allocation method of providing for income taxes. Taxable income may be different from reported earnings before income taxes to the extent that capital cost allowances and development expenditures claimed for tax purposes differ from depreciation and amortization recorded. The difference between the taxes calculated as payable each year and those charged against earnings on the tax allocation method is accumulated and carried forward in the balance sheet under the heading of Deferred Income Taxes.

The provision for income taxes also reflects two significant reductions of tax caused by statutory items not directly related to income, namely inventory allowance and investment tax credit. In addition the provision reflects the non-deductibility for income tax purposes of interest on Income Debentures.

2. Inventories (thousands of dollars)

	1977	1976
Concentrates	\$ 11,356	\$ 11,565
Refined metal products	25,674	17,527
Fertilizers	5,163	2,886
Raw materials and materials in process	20,666	16,449
Operating supplies	9,286	10,725
	\$ 72,145	\$ 59,152

3. Fixed Assets (thousands of dollars)

	Property, Plant and Equipment			Unamortized Development Costs	Total
	Cost	Depreciation	Net Cost		
Ruttan Mine	\$ 49,276	\$ 11,125	\$ 38,151	\$ 21,498	\$ 59,649
Fox Mine	18,204	7,885	10,319	5,408	15,727
Lynn Lake	20,247	19,103	1,144	—	1,144
Metal and Chemical	92,412	61,154	31,258	—	31,258
	\$ 180,139	\$ 99,267	\$ 80,872	\$ 26,906	\$ 107,778

4. Investments at Cost Less Amounts Written Off

(thousands of dollars)

	Common Shares	Percentage Owned	1977	1976
Marinduque Mining & Industrial Corporation	9,414,877	11	\$ 6,752	\$ 6,752
P.T. Pacific Nikkel Indonesia (including loans and advances)	11,378	9	3,537	3,537
Other companies			49	49
			\$ 10,338	\$ 10,338

The investments in Marinduque Mining & Industrial Corporation and P.T. Pacific Nikkel Indonesia are considered to be of a long-term nature and are valued on the basis of historical cost.

The quoted market value of the investment in Marinduque shares at December 31, 1977 was \$5,793,000 Canadian. Nickel and copper production comprise the bulk of this company's business.

There is no quoted market value for shares of P.T. Pacific Nikkel Indonesia. The company was formed to evaluate the potential for development of a nickel orebody in Indonesia. This evaluation is continuing, but no decision has been taken to bring the orebody into production. Sherritt discontinued any additional financial participation in 1974 and its equity participation has been diluted as a result of continued financial support by the other shareholders since that time.

5. Bank Indebtedness

Certain receivables and inventories of the Company have been pledged as security for the bank indebtedness.

6. Long-Term Debt

As part of a refinancing which involved the issue of Income Debentures, the First Mortgage Bonds outstanding at December 31, 1976 were fully repaid during 1977.

Income Debentures (thousands of dollars)

Authorized	
U.S. dollars	\$ 52,800
Issued	
U.S. dollars	\$ 52,800
Converted to Canadian dollars	\$ 57,275

Interest — currently 5.315%, varies with the rate of interest charged by the lender for U.S. dollar loans made to its prime commercial borrowers. The interest is not an allowable deduction for income tax purposes.

Repayment — in 28 quarterly payments of \$1,100,000 U.S. commencing September 30, 1980 with the balance due September 30, 1987. There is a requirement for additional principal repayments when profits are above a minimum cumulative level.

The debentures may be repaid at any time without penalty, can be converted to Canadian funds or to term notes, and are secured by a fixed charge on Ruttan Mine and a floating charge on all other assets of the Company.

Interest on long-term debt (thousands of dollars)	1977	1976
Interest on Income Debentures	\$ 663	\$ —
Interest on First Mortgage Bonds	1,348	3,014
	\$ 2,011	\$ 3,014

7. Shareholders' Equity

Capital

Shares authorized and issued

Authorized

14,000,000 combined total Class A and Class B participating special shares, par value \$1 each

100 common shares, par value \$10 each

Issued and fully paid	Number of Shares	Amount
Class A		
January 1, 1977	12,395,764	\$ 12,395,764
Issued for cash	14,420	14,420
Exchanged for Class B	(5,014,627)	(5,014,627)
December 31, 1977	7,395,557	\$ 7,395,557
Class B		
January 1, 1977	358,416	\$ 358,416
Issued in exchange for Class A	5,014,627	5,014,627
December 31, 1977	5,373,043	\$ 5,373,043
	12,768,600	\$ 12,768,600

During 1977, 14,420 (1976: 14,180) Class A shares were issued under the Employee Share Purchase Plan for a cash consideration of \$71,739 or \$4.97 per share (1976: \$104,578 or \$7.37 per share). The par value of these shares of \$14,420 has been credited to capital stock and the balance of the consideration of \$57,319 (1976: \$90,398) to contributed surplus.

The Class A and Class B shares are voting shares, rank equally in all respects and are exchangeable one for the other. The 1977 tax legislation changes permitted the Directors to declare that tax-deferred dividends be paid from 1971 capital surplus on hand (as defined by the Income Tax Act of Canada). These tax-deferred dividends were paid on Class B shares and were equal to the dividends paid on Class A shares. Under this recently enacted legislation the payment of tax-deferred dividends will not be possible after December 31, 1978.

Dividends

Dividends and related tax are shown in the following table:

(thousands of dollars)	1977	1976
Class A Shares		
1977 — \$.15 per share (1976: \$.35)	\$ 1,109	\$ 4,324
Class B Shares		
1977 — \$.15 per share (1976: \$.2975 plus tax)	806	136
	\$ 1,915	\$ 4,460

8. Pension Plans

The Company maintains separate plans for salaried and hourly employees. At December 31, 1977, the actuarially computed value of pension benefits under the Salaried Employees' Pension Plan exceeded the assets of the pension fund by \$2,700,000. Annual pension costs are determined at regular intervals by independent actuaries, are funded currently and include provision for current service costs and for funding of past service costs over a period not exceeding fifteen years.

The Hourly Employees' Pension Plan is a money purchase arrangement whereby the Company contributes amounts equal to the employee contribution. There are no unfunded liabilities relating to this plan.

9. Employee Share Purchase Plan

Under the Employee Share Purchase Plan eligible employees are entitled to subscribe for shares of the Company and to pay for such shares by payroll deduction over a period of 24 months at a price per share equal to the lesser of the average market price on the original offering date (June 21, 1976 and June 20, 1977), or the average market price on the completion date of purchase. At December 31, 1977 there were outstanding purchase agreements with employees having an aggregate value of \$312,000.

10. Commitments and Guarantees

Ruttan Mine

The Company is proceeding with a project for the underground development of the Ruttan Mine to the 1400 level. During 1977, \$8,000,000 was spent and an additional \$3,000,000 committed to this project. It is estimated that the cost, when completed, will be approximately \$30,000,000, exclusive of financing charges.

Lease commitments for capital equipment utilized at this mine involve payments of approximately \$1,300,000 per year. These leases expire on various dates during the years 1980 and 1981.

Townsites and Government

Certain expenditures incurred by the Province of Manitoba and the Local Government Districts of Leaf Rapids and Lynn Lake for the development of the townsites and certain provincial highways are being amortized over periods up to 1995 by payments from the Company of approximately \$695,000 annually in addition to normal municipal taxes. The Company has guaranteed the repayment of the debts incurred on account of these expenditures which obligations total \$8,800,000.

The Company has also guaranteed employees' mortgage indebtedness in these townsites amounting to approximately \$6,400,000.

Manitoba Hydro

Under agreement with Manitoba Hydro for the supply of power, the cost (incurred by Manitoba Hydro) of certain transmission lines to the Company's mining properties is being paid by the Company over periods up to the year 2013. The unamortized balance of the cost of these lines amounts to \$2,000,000 at December 31, 1977.

11. Anti-Inflation Program

The Company is subject to the Anti-Inflation Program enacted by the Government of Canada, effective October 14, 1975, to provide for the restraint of profit margins, prices, dividends, and compensation in Canada. This program will be phased out starting April 14, 1978 and will end completely on December 31, 1978.

12. Remuneration of Directors and Officers

In 1977 the direct remuneration of Directors and senior Officers of the Company was \$533,000 (1976: \$492,000).

Ten-Year Record 1968 - 1977

Sherritt Gordon Mines Limited and
subsidiary companies

(figures in thousands except per share figures)

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
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Operating Information

Ore milled (tons)

Ruttan Mine	2,487	2,661	3,341	3,358	1,871	—	—	—	—	—
Fox Mine	890	832	1,007	1,008	963	946	1,022	389	—	—
Lynn Lake Mine	—	197	352	432	676	995	1,158	1,090	1,258	1,277

Production

Refinery										
Nickel (lbs.)	26,688	27,708	27,937	26,172	30,262	37,321	33,111	35,918	30,028	29,598
Cobalt (lbs.)	1,011	658	560	410	616	809	561	803	668	894
Fertilizer (tons)	401	322	385	349	362	372	327	280	281	345
Recoverable metal in concentrates										
Copper (lbs.)	75,489	76,009	87,005	100,395	72,101	41,474	60,534	30,816	13,238	12,336
Zinc (lbs.)	87,477	95,369	99,953	79,102	48,380	8,986	9,605	163	—	—

Financial Information

Revenue from sales	\$ 178,604	179,428	191,479	192,958	124,092	72,861	73,958	90,889	66,292	56,754
Process licensing and other	\$ 3,376	3,634	3,873	2,128	941	1,365	1,464	1,420	932	400
Costs and expenses	\$ 164,813	166,070	166,787	141,934	92,128	61,517	60,798	55,760	41,765	43,699
Depreciation and amortization	\$ 10,759	9,680	10,017	12,571	9,234	7,563	7,852	6,048	6,032	5,807
Income and mining royalty taxes	\$ 2,227	3,165	7,390	17,535	2,685	55	(1,995)	13,000	8,500	3,500
Net earnings before extraordinary items	\$ 4,166	4,131	11,158	23,046	20,986	5,091	8,767	17,501	10,927	4,148
Per share	\$.33	.32	.88	1.81	1.65	.40	.73	1.54	.96	.37
Extraordinary items	\$ —	—	—	—	—	2,784	1,270	1,658	—	—
Net earnings for the year	\$ 4,166	4,131	11,158	23,046	20,986	2,307	7,497	15,843	10,927	4,148
Per share	\$.33	.32	.88	1.81	1.65	.18	.62	1.39	.96	.37
Dividends	\$ 1,915	4,460	7,010	9,555	8,918	6,370	7,231	6,818	4,545	2,841
Dividends per share	\$.15	.35	.55	.75	.70	.50	.60	.60	.40	.25
Capital expenditures	\$ 14,152	6,180	11,513	14,527	20,791	30,963	11,737	12,795	14,715	9,831
Cash flow from operations	\$ 15,509	14,605	25,156	45,519	29,383	12,570	16,006	25,235	19,813	12,012
Working capital	\$ 70,200	38,140	38,472	36,409	24,779	27,375	28,968	19,365	15,387	12,352
Long-term debt	\$ 57,275	24,731	29,564	34,194	41,881	36,333	13,196	17,788	20,039	17,556
Shareholders' equity	\$ 109,536	107,213	107,437	103,289	89,798	77,730	81,793	65,048	56,023	49,641
Return on Shareholders' equity	3.8%	3.9%	10.4%	22.3%	23.4%	3.0%	9.2%	24.4%	19.5%	8.4%

Ore Reserves

Ruttan Mine										
Tons	30,439	32,047	43,600	45,900	49,100	51,000	51,000	51,000	12,900	—
% copper	1.74	1.73	1.45	1.45	1.46	1.47	1.47	1.47	1.44	—
% zinc	1.25	1.25	1.45	1.52	1.60	1.61	1.61	1.61	2.61	—
Fox Mine										
Tons	7,093	7,836	8,700	10,700	11,800	13,300	14,500	13,100	11,300	12,269
% copper	1.83	1.95	1.92	1.95	2.03	2.01	1.99	1.84	1.96	1.74
% zinc	2.12	2.10	2.08	2.07	2.15	2.23	2.35	2.70	2.74	2.35

Directors and Officers

Divisions

Directors

W. E. P. DeRoche
Chairman of the Board
Partner, Blake, Cassels & Graydon

Edward L. Donegan
Partner, Blake, Cassels & Graydon

W. A. Humphrey
Vice-President, Operations,
Newmont Mining Corporation

V. N. Mackiw
Executive Vice-President

R. G. MacKay
Retired Mining Executive

Plato Malozemoff
Chairman of the Board and
Chief Executive Officer,
Newmont Mining Corporation

J. H. Parliament
President,
Newmont Mines Limited

David D. Thomas
President and Chief Executive Officer

J. E. Thompson
President,
Newmont Mining Corporation

Officers

W. E. P. DeRoche
Chairman of the Board

David D. Thomas
President and Chief Executive Officer

V. N. Mackiw
Executive Vice-President

H. M. Bilkey
Vice-President and General Manager,
Alberta Operations

Alan E. Gallie
Vice-President, Marketing

Robert D. Lindberg *
Vice-President, Mining

Kenneth J. Harvey
Vice-President, Finance

Robert R. Topp
Vice-President

Frank I. Piper
Secretary

Ian A. Shaw †
Treasurer

Peter S. Bleach †
Controller

* Appointed September, 1977

† Appointed March, 1978

Mining and Milling Division Lynn Lake, Manitoba

J. A. MacLellan
General Manager, Manitoba Operations

D. J. Libby
Manager, Ruttan Operations

R. C. McCombe
Manager, Fox Operations

Metal and Chemical Division Fort Saskatchewan, Alberta

H. M. Bilkey
Vice-President and General Manager,
Alberta Operations

J. R. Muter
Associate Manager

N. A. Colvin
Manager, Development

B. W. Kushnir
Manager, Production

A. H. Lee
Manager, Fabricated Metal Products

A. C. Oliver
Manager, Administration

Research Centre Fort Saskatchewan, Alberta

H. Veltman
Director

M. A. Clegg
Manager, New Product Research

Marketing Division

Alan E. Gallie
Vice-President, Marketing
Toronto, Ontario

Rex F. Pearce
Manager, Metal Marketing
Toronto, Ontario

R. M. Garvey
Marketing Manager,
Concentrates and Feeds
Toronto, Ontario

J. A. Fraser
Manager, Fertilizer Marketing
Edmonton, Alberta

Auditors

Deloitte, Haskins & Sells, Toronto

Solicitors

Blake, Cassels & Graydon, Toronto

Transfer Agents

Canada Permanent Trust Company,
Canada
Morgan Guaranty Trust Company
of New York

Bankers

Canadian Imperial Bank of Commerce,
Toronto
Morgan Guaranty Trust Company
of New York

Corporate Office

Commerce Court West
Toronto, Ontario

